

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2014-7-G - ORDER NO. 2014-822
OCTOBER 15, 2014

IN RE: Application of Piedmont Natural Gas)	INITIAL ORDER
Company, Inc. to Have the Terms of the)	APPROVING
Natural Gas Rate Stabilization Act Apply to)	QUARTERLY
the Company's Rates and Charges for Gas)	MONITORING REPORT
Distribution Services)	AND ADOPTING
)	SETTLEMENT
)	AGREEMENT

This matter comes before the Public Service Commission of South Carolina (the Commission) pursuant to S.C. Code Ann. §§ 58-5-420(2) and 58-5-455, a portion of the Natural Gas Rate Stabilization Act (“Act”), as related to Piedmont Natural Gas Company, Inc. (“Piedmont” or the “Company”). Order No. 2005-491 established a baseline return on equity for the Company under the Act, based on the Company’s last rate case. See Order No. 2002-761. Section 58-5-455 sets out a procedure for the handling of monitoring reports under the Act related to the quarter ending March 31, which we detailed in Order No. 2005-491 at 5.

Briefly, under Section 58-5-455, the Company files the monitoring reports with the Commission and the Office of Regulatory Staff (ORS). Interested parties may comment on the reports. Where it appears to the Commission or ORS that an adjustment in rates may be warranted, ORS shall conduct an audit of the monitoring report and specify any changes that it determines are necessary to correct errors in the report or to otherwise bring the report into compliance with the statute. Parties may comment on the

ORS audit. On or before October 15, the Commission shall issue an initial order setting forth any changes required in the utility's request to adjust rates under the statute. Any gas rate adjustments authorized under the terms of the statute shall take effect for all bills rendered on or after the first billing cycle of November of that year. This present order is the "initial order" contemplated by S.C. Code Ann. Section 58-5-455 for Piedmont.

Pursuant to the South Carolina Natural Gas Rate Stabilization Act, Piedmont submitted its quarterly monitoring report for the twelve-month period ending March 31, 2014, as well as the required revenue calculations and any proposed changes to its tariff rates necessary to permit Piedmont the opportunity to earn the rate of return on common equity established in its last general rate case as specified in Section 58-5-420(1).

The ORS conducted a review of Piedmont's Monitoring Report for the twelve-month period ending March 31, 2014, to evaluate compliance with Section 58-5-430 and Section 58-5-440 of the Act. The ORS proposed certain adjustments to reported amounts to bring the report into conformance with those sections. Piedmont filed written comments advising the Commission that Piedmont had no objection to or comments on the findings and adjustments reflected in the ORS Audit Report.

A Settlement Agreement was reached by and among Piedmont and ORS (collectively, the Parties). The Settlement Agreement and exhibits are attached hereto as Order Exhibit 1. Under the terms of the Settlement Agreement, Piedmont will implement rates for the twelve-month period beginning with the first billing cycle of November 2014, calculated on the basis of a 10.2% return on equity ("ROE"), instead of the 12.6% ROE approved by Commission Order Nos. 2002-761, 2005-491, and 2005-567. The

Parties agree that Piedmont will adopt the accounting adjustments of ORS as set forth in Schedule 2 attached to the Settlement Agreement. The Parties further agree that, based upon the accounting adjustments proposed by ORS and adopted by Piedmont, and the agreement of Piedmont to implement rates based upon a 10.2% ROE, South Carolina ratepayers will realize a decrease in current margin rates totaling (\$2,850,000). The Settlement Agreement states that this equates to a reduction of (\$4,665,000) for South Carolina ratepayers when compared to rates calculated on Piedmont's authorized 12.6% ROE, which was authorized by Commission Order Nos. 2002-761, 2005-491, and 2005-567. The Parties further agree to a decrease in demand cost of (\$4,234,417) due to a demand cost over-recovery.

We have examined the accounting and pro forma adjustments proposed and agreed upon by the Parties, as well as the Settlement Agreement, and we take no exception to them.

FINDINGS AND CONCLUSIONS

1. S.C. Code Ann. Section 58-5-455, a portion of the Natural Gas Rate Stabilization Act, requires the filing of certain documents and the issuance of this Initial Order.

2. Changes are required to the Company's request to adjust rates.

3. ORS has suggested certain changes to which Piedmont does not object, as outlined above. Indeed, the parties have reached a Settlement Agreement.

4. This Commission has found no other changes appropriate or necessary other than those agreed to by the Parties.

5. The Settlement Agreement is approved. This Commission adopts the changes and adjustments proposed by the Parties and the resulting rates and charges.

6. The new approved rates and charges shall be effective for bills rendered on and after the first billing cycle in November 2014, subject to changes under the Company's Gas Cost Recovery Mechanism.

7. If it has not already done so by the date of issuance of this Order, the Company shall file its revised tariff utilizing the Commission's e-filing system for tariffs prior to its first billing cycle in November 2014. The revised tariff should be electronically filed in a text searchable PDF format using the Commission's DMS System (<http://dms.psc.sc.gov>). An additional copy should be sent via email to etariff@psc.sc.gov to be included in the Commission's ETariff System (<http://etariff.psc.sc.gov>). Future revisions to the tariff should be made using the ETariff System. The revised tariff shall be consistent with the findings of this Order and shall be consistent with the Commission's Rules and Regulations, as well as the provisions of the Settlement Agreement.

8. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:



Nikiya Hall, Chairman

ATTEST:



Swain E. Whitfield, Vice Chairman
(SEAL)

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2014-7-G

September 3, 2014

IN RE: Application of Piedmont Natural Gas)
 Company, Incorporated to Have the Terms of)
 the Natural Gas Rate Stabilization Act Apply) **SETTLEMENT AGREEMENT**
 to the Company's Rates and Charges for Gas)
 Distribution Services)

This Settlement Agreement is made by and among the South Carolina Office of Regulatory Staff (“ORS”) and Piedmont Natural Gas Company, Inc. (“PNG” or the “Company”) (collectively referred to as the “Parties” or sometimes individually as a “Party”).

WHEREAS, by Public Service Commission of South Carolina ("Commission") Order Nos. 2005-491 and 2005-567, dated September 28, 2005 and October 13, 2005, respectively, the Commission established a baseline for PNG under the Natural Gas Rate Stabilization Act (the "RSA") and approved certain accounting adjustments proposed by ORS and PNG;

WHEREAS, pursuant to S.C. Code Ann. § 58-5-455 (Supp. 2013), PNG filed its Quarterly Monitoring Report and Proposed Rate Changes with the Commission on June 12, 2014 for the review period consisting of April 1, 2013 through March 31, 2014 (“Review Period”);

WHEREAS, the Report of ORS's examination of PNG's Monitoring Report for the Twelve-Month Period Ending March 31, 2014, pursuant to the RSA, was filed with the Commission on August 28, 2014;

WHEREAS, the Parties to this Settlement Agreement are the only parties of record in the above-captioned docket;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of this proceeding would be in their best interest; and,

WHEREAS, following those discussions, the Parties have each determined that their interests, and ORS has determined that the public interest, would be best served by settling the above-captioned case under the terms and conditions set forth below:

1. PNG will implement rates for the twelve-month period beginning with the first billing cycle of November 2014 calculated on the basis of an 10.2% Return on Equity ("ROE") instead of the 12.6% ROE approved by Commission Orders No. 2002-761, 2005-491, and 2005-567.

2. The Parties agree that the following are the only attachments to this Settlement Agreement: Schedule 1 (Net Operating Income and Rate of Return); Schedule 2 (Explanations of Accounting and Pro Forma Adjustments); and, Schedule 3 (Weighted Cost of Capital).

3. The Parties agree that PNG will adopt the accounting adjustments of ORS as set forth in Schedule 2 as attached to this Settlement Agreement.

4. The Parties agree that, based upon the accounting adjustments proposed by ORS and adopted by PNG, and the agreement of PNG to implement rates based on an 10.2% ROE, South Carolina ratepayers will realize a decrease in current margin rates totaling (\$2,850,000). This equates to a reduction of (\$4,665,000) for South Carolina ratepayers when compared to rates calculated at the authorized 12.6% ROE.

5. The Parties agree to a decrease in demand cost of (\$4,234,417), due to a demand cost over-recovery.

6. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

7. The Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair their arguments or positions in future proceedings. Should the Commission decline to approve this Settlement Agreement in its entirety, then any Party desiring to do so may withdraw from this Settlement Agreement without penalty.

8. This Settlement Agreement shall be interpreted according to South Carolina law.

9. Each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any Party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

[PARTY SIGNATURES TO FOLLOW ON SEPARATE PAGES]

Order Exhibit 1
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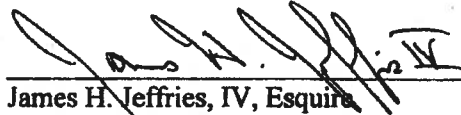
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Representing Piedmont Natural Gas Company, Inc.



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Settlement Schedule 1

Midstream Natural Gas Company
South Carolina Operations
Net Operating Income and Rate of Return
For the Test Year Ended March 31, 2014
Docket No. 2014-7-G

	(1) Per Regulatory Books	(2) OMS Accounting and Pro Forma Adjustments	(3) OMS As Adjusted	(4) Adjustments for Proposed Mileage Decrease	(5) Adjustment for Demand Cost Under/Over Recovery	(6) Total After Proposed Rate
Operating Revenues						
1 Sale and Transportation of Gas	\$ 159,340,480	\$ (8,487,899)	\$ 150,852,581	\$ (2,509,009)	\$ (4,234,417)	\$ 143,768,144
2 Other Operating Revenues	940,479	0	940,479	0	0	940,479
3 Total Operating Revenues	160,280,959	(8,487,899)	151,793,060	(2,509,009)	(4,234,417)	144,789,643
Operating Expenses						
4 Cost of Gas	89,893,699	(7,814,048)	81,279,651	0	(4,204,335)	77,075,316
5 Operations and Maintenance	26,700,507	(1,596,373)	25,104,134	(5,796)	(5,381)	25,128,777
6 Depreciation	11,419,378	729,681	12,149,059	0	0	12,149,059
7 General Taxes	6,131,979	(132,488)	5,999,491	(14,471)	(21,501)	5,963,599
8 State Income Taxes	1,417,582	(299,483)	1,118,099	(141,488)	0	976,591
9 Federal Income Taxes	7,086,117	326,307	7,412,424	(940,993)	0	6,471,531
10 Amortization of Investment Tax Credits	(26,061)	0	(26,061)	0	0	(26,061)
11 Total Operating Expenses	141,823,181	(8,716,415)	133,106,767	(1,102,632)	(4,234,417)	127,369,722
12 Net Operating Income	18,457,778	228,515	18,686,293	(1,747,373)	0	16,938,920
13 Interest on Customers' Deposits	(103,506)	0	(103,506)	0	0	(103,506)
14 Amortization of Debt Redemption Premiums	0	0	0	0	0	0
15 Allowance for Funds Used During Construction	396,070	0	396,070	0	0	396,070
16 Customer Growth	132,896	1,645	134,541	(12,381)	0	121,960
17 Net Operating Income for Rates	\$ 18,883,138	\$ 230,160	\$ 19,113,298	\$ (1,759,953)	\$ 0	\$ 17,353,445
Rate Base						
18 Plant in Service	\$ 453,222,047	0	\$ 453,222,047	0	0	\$ 453,222,047
19 Accumulated Depreciation	(191,834,681)	0	(191,834,681)	0	0	(191,834,681)
20 Net Plant in Service	261,387,366	0	261,387,366	0	0	261,387,366
Add:						
21 Construction Work in Progress	9,192,186	0	9,192,186	0	0	9,192,186
22 Materials and Supplies	10,381,228	0	10,381,228	0	0	10,381,228
23 Cash Working Capital	3,546,514	(194,546)	3,351,968	0	0	3,351,968
Deduct:						
24 Customers' Advances	0	0	0	0	0	0
25 Customers' Deposits	3,001,889	0	3,001,889	0	0	3,001,889
26 Accumulated Deferred Income Taxes	62,205,284	0	62,205,284	0	0	62,205,284
27 Unclaimed Funds	66,189	0	66,189	0	0	66,189
28 Total Rate Base	\$ 218,233,012	\$ (194,546)	\$ 218,038,466	\$ 0	\$ 0	\$ 218,038,466
29 Rate of Return	8.63%		8.77%			7.99%
30 Return on Common Equity	11.45%		11.67%			10.20%

**Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
For the Test Year Ended March 31, 2014
Docket No. 2014-7-G**

<u>Line No.</u>	<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
1	<u>Operation Revenues - Sale and Transportation of Gas</u>		
	To decrease revenues on a going-level basis.	\$ (8,487,899)	\$ (8,487,899)
	<u>Total Operation Revenues - Sale and Transportation of Gas</u>	\$ (8,487,899)	\$ (8,487,899)
2	<u>Cost of Gas</u>		
	To decrease cost of gas on a going-level basis.	\$ (7,814,048)	\$ (7,814,048)
	<u>Total Cost of Gas</u>	\$ (7,814,048)	\$ (7,814,048)
3	<u>Operations and Maintenance Expenses</u>		
a.	To annualize the payroll expense as of March 31, 2014.	\$ (188,964)	\$ (188,964)
b.	To increase expenses for the salary and payroll investment plan. The plan allows participants to defer a portion of their base salary and the Company matches a portion of the participant's contribution.	44,175	44,175
c.	To adjust pension costs included in the filing.	(474,205)	(474,205)
d.	To adjust uncollectible gas margin utilizing the applicable uncollectible margin rate of .20266%.	(239,518)	(239,518)
e.	To decrease expenses for allocations to non-utility activities.	(24,143)	(24,143)
f.	To increase expenses for the Long-Term Incentive Plan.	170,831	170,831
g.	To decrease expenses for the Short-Term Incentive Plan.	(234,579)	(234,579)
h.	To decrease expenses for the Mission Value Performance Incentive Plan.	(192,360)	(192,360)
i.	To increase expenses for group insurance.	1,799	1,799
j.	To increase expenses for amortization of early retirement incentive.	108,574	108,574
k.	To decrease expenses for the South Carolina assessment fee.	(16,993)	(29,055)
l.	To decrease expenses for items that are nonallowable for ratemaking purposes.	(153,904)	(483,762)
m.	To adjust for South Carolina Environmental expense.	(64,975)	(64,975)
n.	To adjust for franchise fee expense.	(483,620)	(483,620)
o.	To write-off Robeson LNG project.	0	535,429
	<u>Total Operations and Maintenance Expenses</u>	\$ (1,747,882)	\$ (1,536,373)

**Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
For the Test Year Ended March 31, 2014
Docket No. 2014-7-G**

<u>Line No.</u>	<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
4	<u>Depreciation Expenses</u>		
	To increase depreciation expense on a going-level basis using the most current depreciation study rates.	\$ <u>759,681</u>	\$ <u>759,681</u>
	<u>Total Depreciation Expenses</u>	\$ <u>759,681</u>	\$ <u>759,681</u>
5	<u>General Taxes</u>		
a.	To decrease payroll tax expense.	(89,399)	(89,399)
b.	To decrease franchise taxes (rate of .3%) and gross receipts tax (rate of .207764337%) for the adjustment made to decrease revenues on a going-level basis.	<u>(44,089)</u>	<u>(43,099)</u>
	<u>Total General Taxes</u>	\$ <u>(133,488)</u>	\$ <u>(132,498)</u>
6	<u>State Income Taxes</u>		
	To adjust state income taxes (rate of 5%) to reflect the impact on income for accounting and pro forma adjustments.	\$ <u>(289,830)</u>	\$ <u>(299,483)</u>
	<u>Total State Income Taxes</u>	\$ <u>(289,830)</u>	\$ <u>(299,483)</u>
7	<u>Federal Income Taxes</u>		
	To adjust federal income taxes (rate of 35%) to reflect the impact on income for accounting and pro forma adjustments.	\$ <u>390,500</u>	\$ <u>326,307</u>
	<u>Total Federal Income Taxes</u>	\$ <u>390,500</u>	\$ <u>326,307</u>
8	<u>Customer Growth</u>		
	To adjust net operating income to reflect an anticipated increase in customer growth (rate of .72%) for the adjustments to operating revenues and expenses.	\$ <u>2,300</u>	\$ <u>1,645</u>
	<u>Total Customer Growth</u>	\$ <u>2,300</u>	\$ <u>1,645</u>
9	<u>Cash Working Capital</u>		
	To decrease cash working capital for the pro forma adjustments to operation and maintenance expenses (rate of 12.5%).	\$ <u>(218,485)</u>	\$ <u>(194,546)</u>
	<u>Total Cash Working Capital</u>	\$ <u>(218,485)</u>	\$ <u>(194,546)</u>
10	<u>Operating Revenues - Sale and Transportation of Gas</u>		
	To decrease revenues from the sale and transportation of gas for the proposed margin decrease. ORS has recalculated this adjustment utilizing all ORS adjustments to operating revenues.	\$ <u>1,614,145</u>	\$ <u>(2,850,000)</u>
	<u>Total Operating Revenues - Sale and Transportation of Gas</u>	\$ <u>1,614,145</u>	\$ <u>(2,850,000)</u>

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Settlement Schedule 2

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
For the Test Year Ended March 31, 2014
Docket No. 2014-7-G

Line No.	Description	Per Piedmont	Per ORS
11	<u>Operations and Maintenance Expenses</u>		
	To adjust the provision for uncollectible accounts (.20266%) for the proposed margin decrease.	\$ 3,271	\$ (5,776)
	<u>Total Operations and Maintenance Expenses</u>	\$ 3,271	\$ (5,776)
12	<u>General Taxes</u>		
	To adjust franchise taxes (rate of .3%) and gross receipts tax (rate of .207764337%) for the proposed margin decrease.	\$ 8,384	\$ (14,471)
	<u>Total General Taxes</u>	\$ 8,384	\$ (14,471)
13	<u>State Income Taxes</u>		
	To adjust state income taxes (rate of 5%) to reflect the impact on income from the proposed margin decrease.	\$ 80,124	\$ (141,488)
	<u>Total State Income Taxes</u>	\$ 80,124	\$ (141,488)
14	<u>Federal Income Taxes</u>		
	To adjust federal income taxes (rate of 35%) to reflect the impact on income from the proposed margin decrease.	\$ 532,828	\$ (940,893)
	<u>Total Federal Income Taxes</u>	\$ 532,828	\$ (940,893)
15	<u>Customer Growth</u>		
	To adjust net operating income to reflect an anticipated increase in customer growth (rate of .72%) for the proposed margin decrease.	\$ 7,125	\$ (12,581)
	<u>Total Customer Growth</u>	\$ 7,125	\$ (12,581)
16	<u>Operating Revenues - Sale and Transportation of Gas</u>		
	To decrease the revenue requirement for the sale and transportation of gas associated with demand cost over-recovery.	\$ (4,234,915)	\$ (4,234,417)
	<u>Total Operating Revenues - Sale and Transportation of Gas</u>	\$ (4,234,915)	\$ (4,234,417)
17	<u>Cost of Gas</u>		
	To decrease cost of gas for the demand cost over-recovery using a demand cost allocation factor of 14.92%, based upon the most recent design day study.	\$ (4,204,335)	\$ (4,204,335)
	<u>Total Cost of Gas</u>	\$ (4,204,335)	\$ (4,204,335)

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Settlement Schedule 2

**Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
For the Test Year Ended March 31, 2014
Docket No. 2014-7-G**

Line No.	Description	Per Piedmont	Per ORS
18	<u>Operations and Maintenance Expenses</u>		
	To decrease the provision for uncollectible accounts (rate of .202566%) following the adjustment for demand cost over-recovery.	\$ <u>(8,582)</u>	\$ <u>(8,581)</u>
	<u>Total Operations and Maintenance Expenses</u>	\$ <u>(8,582)</u>	\$ <u>(8,581)</u>
19	<u>General Taxes</u>		
	To decrease the franchise taxes (rate of .3%) and gross receipts tax (rate of .207764337%) for the adjustment to revenue for demand cost over-recovery.	\$ <u>(21,998)</u>	\$ <u>(21,501)</u>
	<u>Total General Taxes</u>	\$ <u>(21,998)</u>	\$ <u>(21,501)</u>

Piedmont Natural Gas Company
South Carolina Operations
Weighted Cost of Capital
For the Test Year Ended March 31, 2014
Docket No. 2014-7-G

Settlement Schedule 3

Description	Regulatory Per Books				As Adjusted				After Proposed Rates			
	Capital Structure	Ratio	Rate Base	Income For Return	Embedded Contribution	Overall Contribution	Rate Base	Income For Return	Embedded Contribution	Overall Contribution	Rate Base	Income For Return
Long-Term Debt	1,131,117,392	45.88%	98,204,855	5,124,293	5.22%	2.35%	98,117,310	5,121,724	5.22%	2.35%	98,117,310	5,121,724
Common Equity	1,392,676,813	55.86%	129,638,127	13,756,945	11.40%	6.30%	119,591,156	13,691,674	11.67%	6.45%	119,591,156	13,691,674
Total	2,523,794,205	100.00%	218,233,092	18,881,238	8.62%	8.65%	218,233,092	18,813,398	8.77%	8.77%	218,233,092	17,353,445